

**RURAL WATER DISTRICT NUMBER 5
SUMNER COUNTY, KANSAS**

**FINANCIAL STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2012**

**RURAL WATER DISTRICT NUMBER 5
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FOR THE YEAR ENDED DECEMBER 31, 2012**

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CHAD A. ANDRA, CPA, LLC
CERTIFIED PUBLIC ACCOUNTANT

INDEPENDENT AUDITORS' REPORT

Board of Directors
Rural Water District Number 5
Sumner County, Kansas

We have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of **Rural Water District Number 5, Sumner County, Kansas**, a Municipality, as of and for the year ended December 31, 2012, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the *Kansas Municipal Audit and Accounting Guide* as described in Note 1 to meet the financial reporting requirements of the State of Kansas; this includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the *Kansas Municipal Audit and Accounting Guide*. Those standards require we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on auditors' judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statement, the financial statement is prepared by **Rural Water District Number 5, Sumner County, Kansas**, to meet the requirements of the State of Kansas on the basis of the financial reporting provisions of the *Kansas Municipal Audit and Accounting Guide*, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraph, the financial statement referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of **Rural Water District Number 5, Sumner County, Kansas**, as of **December 31, 2012**, or the changes in financial position and cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the aggregate cash and unencumbered cash balance of **Rural Water District Number 5, Sumner County, Kansas**, as of **December 31, 2012**, and the aggregate receipts and expenditures for the year then ended in accordance with the financial reporting provisions of the *Kansas Municipal Audit and Accounting Guide* described in Note 1.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances (basic financial statement) as a whole.

The individual fund schedule of regulatory basis receipts and expenditures - actual (Schedule 1 as listed in the table of contents) is presented for purposes of additional analysis and is not a required part of the basic financial statement, however is required to be presented under the provisions of the *Kansas Municipal Audit and Accounting Guide*. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statement. The information has been subjected to the auditing procedures applied in the audit of the basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statement or to the basic financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statement as a whole, on the basis of accounting described in Note 1.

The additional schedules of supplementary information (Schedules 2 through 7 as listed in the table of contents) are not required and are presented for information only. They have not been subjected to the auditing procedures applied in the audit of the basic financial statement and, accordingly, we do not express an opinion or provide any assurance on them.

Chad A. Andra, CPA, LLC

Chad A. Andra, CPA, LLC

December 17, 2014

RURAL WATER DISTRICT NUMBER 5
SUMNER COUNTY, KANSAS
SUMMARY STATEMENT OF RECEIPTS, EXPENDITURES,
AND UNENCUMBERED CASH

Regulatory Basis

For the Year Ended December 31, 2012

<u>Fund</u>	<u>Beginning</u> <u>Unencumbered</u> <u>Cash Balance</u>	<u>PriorYr</u> <u>Cancelled</u> <u>Encumbrances</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>Ending</u> <u>Unencumbered</u> <u>Cash Balance</u>	<u>Add</u> <u>Encumbrances</u> <u>and Accounts</u> <u>Payable</u>	<u>Ending</u> <u>Cash</u> <u>Balance</u>
Business Funds:							
Water Utility	\$ 83,792	\$ -	\$ 297,878	\$ 320,495	\$ 61,175	\$ 15,433	\$ 76,608
Total Reporting Entity	<u>\$ 83,792</u>	<u>\$ -</u>	<u>\$ 297,878</u>	<u>\$ 320,495</u>	<u>\$ 61,175</u>	<u>\$ 15,433</u>	<u>\$ 76,608</u>

Composition of Cash:	Checking Accounts	\$ 7,556
	Certificates of Deposit	<u>69,052</u>
	Total Reporting Entity	<u>\$ 76,608</u>

The notes to the financial statement are an integral part of this statement.

**RURAL WATER DISTRICT NUMBER 5
SUMNER COUNTY, KANSAS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

Note 1 - Summary of Significant Accounting Policies:

Financial Reporting Entity

Rural Water District Number 5, Sumner County, Kansas was organized under Kansas law and provides water to rural Sumner and Sedgwick Counties in Kansas. Rural Water District Number 5, Sumner County, Kansas, is a municipal corporation governed by an elected nine-member board.

Related Municipal Entities: A related municipal entity is determined by the following criteria. Whether the District exercises oversight responsibility on financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters, scope of the public service, and significant operational or financial relationships with the District. Related municipal entities are not required to be included in the District's audit by the Kansas Municipal Audit and Accounting Guide (KMAAG).

The District has determined that no outside agency meets the above criteria and, therefore, no outside agency has been included as a related municipal entity in the financial statement.

Regulatory Basis Fund Types

The following types of funds comprise the financial activities of the District for the year of 2012:

Business Funds - funds financed in whole or in part by fees charged to users of the goods or services (i.e. water fund)

Basis of Accounting

Regulatory Basis of Accounting and Departure from Accounting Principles Generally Accepted in the United States of America. The Kansas Municipal Audit and Accounting Guide (KMAAG) regulatory basis of accounting involves the recognition of cash, cash equivalents, marketable investments, and certain accounts payable and encumbrance obligations to arrive at a net unencumbered cash and investments balance on a regulatory basis for each fund, and the reporting of changes in unencumbered cash and investments of a fund resulting from the difference in regulatory basis receipts and regulatory basis expenditures for the fiscal year. All recognized assets and liabilities are measured and reported at cost, unless they have been permanently impaired and have no future cash value or represent no future obligation against cash. The KMAAG regulatory basis does not recognize capital assets, long-term debt, accrued receivables and payables, or any other assets, liabilities or deferred inflows or outflows, other than those mentioned above.

**RURAL WATER DISTRICT NUMBER 5
SUMNER COUNTY, KANSAS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

Note 1 - Summary of Significant Accounting Policies: (Continued)

Basis of Accounting (Continued)

The District has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the District to use the regulatory basis of accounting.

Reimbursed Expenses

The District records reimbursable expenditures in the fund that makes the disbursement and records reimbursements as a receipt to the fund that receives reimbursement. For purposes of budgetary comparisons, the expenditures are properly offset by the reimbursements under KMAAG regulatory basis accounting.

Income Tax Status

Rural Water District Number 5, Sumner County, Kansas is recognized by the Internal Revenue Service as a quasi-municipal corporation under K.S.A. 88a-616, and is exempt from Federal and Kansas income taxes. Accordingly, this financial statement does not present a provision for income taxes.

Budgetary Information

Rural water districts are not subject to Kansas statutes requiring a legally adopted budget.

Note 2 - Stewardship, Compliance, and Accountability:

Compliance with Kansas Statutes

Statement 1 is designed to show compliance with the cash basis laws of Kansas. As shown in Statement 1, the District was in apparent compliance with the cash basis laws of Kansas.

Note 3 - Deposits and Investments:

K.S.A. 9-1401 establishes the depositories which may be used by the District. The statute requires banks eligible to hold the District's funds have a main or branch bank in the county in which the District is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The District has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the District's investments of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The District has no investment policy that would further limit its investment choices.

**RURAL WATER DISTRICT NUMBER 5
SUMNER COUNTY, KANSAS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

Note 3 - Deposits and Investments: (Continued)

Concentration of Credit Risk

State statutes place no limit on the amount the District may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. State statutes require the District's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka.

As of December 31, 2012, the District's carrying amount of deposits was \$76,608 and the bank balance was \$95,145. The bank balance was held by two banks resulting in a concentration of credit risk. Of the bank balance, \$95,145 was covered by federal depository insurance.

Note 4 - Risk Management:

The District is exposed to various risks of loss related to torts; thefts of, damage to, or destruction of assets, errors and omissions; injuries to employees; employees' health and life; and natural disasters. The District manages these risks of loss through the purchase of various insurance policies.

Note 5 - Economic Dependency:

Currently, the District purchases its water from the City of Conway Springs, Kansas. To continue serving its patrons, the District is dependent upon the City of Conway Springs, Kansas to provide adequate, reasonably priced water. All water sales are made to residents in the area of the District. Accordingly, the District's operations are dependent upon the ability to purchase water from the City of Conway Springs, Kansas.

Note 6 - Related Party Transactions:

All board members of the District are benefit unit owners and customers.

Note 7 - Subsequent Events

Subsequent events for management's review have been evaluated through December 17, 2014. The date the financial statements were available to be issued.

**REGULATORY REQUIRED
SUPPLEMENTARY INFORMATION**

RURAL WATER DISTRICT NUMBER 5
SUMNER COUNTY, KANSAS
WATER UTILITY FUND
SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL
Regulatory Basis

For the Year Ended December 31, 2012

Receipts

Water Sales	\$ 265,171
New Units	26,720
Interest Income	440
Installation Fees & Reimbursement	5,283
Other Income	264
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Total Receipts	297,878
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Expenditures

Water Purchased	175,985
Collections	1,238
Repairs, Maintenance, & Labor	46,596
Rent	180
Insurance & Bond	1,831
Dues, Subscriptions, & Advertising	150
Office Supplies	3,884
Other Labor	34,478
Bookkeeping	14,388
Attorney & Engineering	25,280
Telephone	1,236
Electricity	3,026
Water Protection Fees	1,476
Wages	10,747
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Total Expenditures	320,495
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Receipts Over (Under) Expenditures	(22,617)
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Unencumbered Cash, Beginning	83,792
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Prior Year Cancelled Encumbrances	-
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Unencumbered Cash, Ending	\$ 61,175
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**ADDITIONAL NON-REQUIRED
SUPPLEMENTARY INFORMATION**

**RURAL WATER DISTRICT NUMBER 5
SUMNER COUNTY, KANSAS
BALANCE SHEET**

December 31, 2012

ASSETS

Current assets

Cash in bank	\$ 7,556
Certificates of deposit	69,052
Accounts receivable - customers	7,113
Inventory	<u>2,645</u>

Total current assets 86,366

Fixed assets

Fencing for facility	3,605
Standpipe	37,850
Water lines	877,891
Booster pump station	19,423
Chlorinator	15,422
Other capital improvements	1,313
Office Equipment	1,465
Less: accumulated depreciation	<u>(741,323)</u>

Total fixed assets 215,646

Other assets

Standpipe easement	1,000
Site for pump	175
Missouri Pacific right of way	<u>1,050</u>

Total other assets 2,225

Total assets \$ 304,237

**RURAL WATER DISTRICT NUMBER 5
SUMNER COUNTY, KANSAS
BALANCE SHEET**

December 31, 2012

LIABILITIES AND DISTRICT EQUITY

Current liabilities

Accounts payable	\$ 15,433
Advance payments - water sales	2,706
Payroll taxes payable	<u>2,069</u>

Total current liabilities **20,208**

District equity

Retained earnings	335,547
Net loss	<u>(51,518)</u>

Total equity **284,029**

Total liabilities and district equity **\$ 304,237**

**RURAL WATER DISTRICT NUMBER 5
SUMNER COUNTY, KANSAS
STATEMENT OF OPERATIONS**

Year ended December 31, 2012

Operating revenues		
Water sales	\$ 270,433	
Total operating revenues		270,433
Operating expenses		
Water purchased	175,985	
Collections	1,238	
Repairs, maintenance, & labor	46,596	
Rent	180	
Insurance & bond	1,831	
Dues, Subscriptions, & Advertising	150	
Office supplies	3,884	
Other labor	34,478	
Bookkeeping	14,388	
Attorney & Engineering	25,280	
Telephone	1,236	
Electricity	3,026	
Water protection fees	1,475	
Wages	10,747	
Payroll tax expense	637	
Depreciation	24,864	
Customer Write-offs	520	
Miscellaneous	8,143	
Total operating expenses		354,658
Operating loss before other income (expense)		(84,225)
Other income (expense)		
New units	26,720	
Interest income	440	
Installation Fees & Reimbursement	5,283	
Other income	264	
Total other income (expense)		32,707
Net loss		\$ (51,518)

**RURAL WATER DISTRICT NUMBER 5
SUMNER COUNTY, KANSAS
STATEMENT OF CASH FLOWS**

Year ended December 31, 2012

Cash flows from operating activities		
Net loss	\$	(51,518)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation		24,864
Changes in assets and liabilities:		
Accounts receivable		3,567
Inventory		-
Accounts payable		1,276
Advance payments		(1,599)
Payroll liabilities		<u>2,069</u>
Net cash provided by operating activities		(21,341)
Cash flows from investing activities		
Interest compounded on certificates of deposits		(311)
Redemption of certificate of deposit		<u>-</u>
Net cash used in investing activities		<u>(311)</u>
Net change in cash and cash equivalents		(21,652)
Cash and cash equivalents, beginning of year		<u>29,208</u>
Cash and cash equivalents, end of year	\$	<u><u>7,556</u></u>
Cash payments for:		
Interest		-
Income taxes		-

**RURAL WATER DISTRICT NUMBER 5
SUMNER COUNTY, KANSAS
INSURANCE & BOND COVERAGE**

December 31, 2012

Summary Schedule of Insurance Coverage

Equipment and buildings - 80% co-insurance and \$500 deductible	Coverage
Storage building	\$ 4,050
Storage building contents	1,680
Pump house building	3,571
Pump house contents	11,962
Water standpipe	144,556
General liability	
General aggregate limit	1,000,000
Products / completed operation aggregate limit	1,000,000
Personal and / or advertising injury limit (any one person or organiz.	500,000
Damage limit to premises rented to district (any one premise)	100,000
Medical expense limit (any one person)	5,000
Each occurrence limit	500,000
Errors & omissions	
Each loss	500,000
Aggregate for each policy term	1,000,000
Deductible per loss	1,000

Summary Schedule of Bond Coverage

Fidelity bond	Coverage
Each district employee	\$ 50,000
Each district board member	50,000

**RURAL WATER DISTRICT NUMBER 5
SUMNER COUNTY, KANSAS
FIXED ASSETS**

December 31, 2012

Depreciation, based on the rates shown below, consists of the following:

	Date	Life	Annual Rate	~~~~~Cost	Beginning Accumulated Depreciation	Current Depreciation	Ending Accumulated Depreciation
Fencing of facility	1976	15	6.7%	\$ 512.94	\$ 512.94	\$ -	\$ 512.94
Standpipe	1976	40	2.5%	37,850.00	33,670.73	946.25	34,616.98
Water lines	1976	40	2.5%	508,770.79	452,594.02	12,719.27	465,313.29
Booster pump station	1976	40	2.5%	10,700.00	9,518.54	267.50	9,786.04
Capital improvements	1976	40	2.5%	1,312.64	1,167.78	32.82	1,200.60
Water lines	1983	40	2.5%	170,825.63	121,713.24	4,270.64	125,983.88
Water lines - NE project	1983	40	2.5%	83,570.16	56,409.82	2,089.25	58,499.07
Water lines	2003	40	2.5%	114,724.88	25,813.08	2,868.12	28,681.20
Pump house improvements	2003	20	5.0%	8,723.25	3,925.44	436.16	4,361.60
Office equipment	2003	5	20.0%	1,464.82	1,464.82	-	1,464.82
Chlorinator	2004	15	6.7%	15,422.00	8,225.04	1,028.13	9,253.17
Fencing of facility	2005	15	6.7%	3,092.00	1,442.91	206.13	1,649.04
				<u>\$ 956,969.11</u>	<u>\$ 716,458.36</u>	<u>\$ 24,864.27</u>	<u>\$ 741,322.63</u>

**RURAL WATER DISTRICT NUMBER 5
SUMNER COUNTY, KANSAS
BOARD OF DIRECTORS**

December 31, 2012

<u>Name</u>	<u>Position</u>
Steve VanAllen	Chairman
Kurtis Lauterbach	Vice-Chairman
Ralph Ohl	Treasurer
Neal Tjaden	Secretary
Craig Crow	Director
Mike Weakley	Director
John Becker, Jr.	Director
Keith Light	Director
Don O'Neal	Director